

# The Investment Case for Cybersecurity and Rising Dividends

Strategies focused on cybersecurity and rising dividends are generating strong investor demand, and with good reason. Regarding the former, consumers are conducting more of their lives online and companies increasingly rely on the digital world to run their operations, which opens the door for cybercrime and ups the need for ever-vigilant cybersecurity. As for the latter, dividends traditionally play an important role in the total returns generated by equities and are a vital source of investment income, especially in the current era of low bond yields.

As a result, exchange-traded funds focused on cybersecurity and rising dividends appear to rank among top-five holdings for institutional investors in Mexico.<sup>1</sup> First Trust, the sixth-largest U.S. ETF sponsor and one of Nasdaq's largest index ETF clients, has two products cross-listed in Mexico which track Nasdaq indexes focused on cybersecurity and rising dividends, respectively. These are among the 44 First Trust products tracking Nasdaq indexes that are cross-listed in Mexico.

The Nasdaq CTA Cybersecurity Index™ (NQCYBR™) taps into a cybersecurity ecosystem experiencing significant growth and diversity in products and services. Those opportunities range from next gen firewalls and intrusion detection/prevention systems to providing security for email and the Internet of Things.

The importance of cybersecurity was highlighted by the rash of notable cyberattacks and/or security breaches that occurred during the first half of 2022 which targeted global corporations (including Microsoft, Nvidia and Coca-Cola) and national governments (including Costa Rica, Peru and Italy).

Sophisticated solutions that aim to keep ahead of cybercrime exist in the form of cybersecurity-related artificial intelligence and machine learning, as well as "Zero Trust" solutions where verification for entry is required for anyone seeking access to a particular computer network. And in the future when quantum-enabled systems will be able to crack modern public-key encryption, quantum computing will play a key in cybersecurity developments.

The need for cybersecurity is ceaseless, and survey data show that cybersecurity spending remains a priority within corporate budgets. Meanwhile, governments are taking action to boost cybersecurity via regulatory and legislative measures.

The Nasdaq CTA Cybersecurity Index™ tracks the performance of companies primarily involved in the building, implementation, and management of security protocols for private and public networks, computers and mobile devices as part of efforts to protect the integrity of data and network operations. Companies are selected based on classification determined by the Consumer Technology Association, and constituents must have a minimum market cap of \$500 million, a minimum three-month average daily dollar

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<sup>1</sup> According to First Trust, September 2022.

trading volume of \$1 million, and a minimum free float of 20%. The index has semiannual reconstitutions (March and September) and quarterly rebalances (March, June, September, and December). Securities have a maximum weight of 6%.

Regarding dividends, the Nasdaq US Rising Dividend Achievers Index™ (NQDVRIS™) contains companies determined by Nasdaq to have increased their dividend value over the previous three-year and five-year annual periods. In addition, the index is designed to analyze a company's financial health (e.g., strong cash balance, low debt and increasing earnings) to select constituents best positioned to keep raising their dividends.

The index is better able to adapt to a rising rates environment and has generally outperformed traditional dividend indexes during periods of higher interest rates historically.

Index constituents must be among the top 1,000 components by market capitalization within the Nasdaq US Benchmark Index™, after excluding real estate investment trusts and mortgage REITs. Components must have a minimum three-month average daily dollar trading volume of \$5 million, earnings per share in the trailing 12 months greater than earnings per share in the trailing 12 months three years prior, a cash-to-debt ratio greater than 50%, and a payout ratio no greater than 65%. Eligible securities are ranked in descending order by dollar dividend increase; in descending order by current dividend yield; and in ascending order by payout ratio. The three ranks are summed to obtain a single combined rank. The 50 securities with the lowest combined ranks are selected (a maximum of 15 securities per ICB Industry is allowed). The index is equal-weighted, with annual reconstitutions in March and quarterly rebalances in March, June, September, and December.

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